

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ESTILL COUNTY WATER DISTRICT NO. 1 AND ITS	)	
INDIVIDUAL COMMISSIONERS, GREG WRIGHT,	)	CASE NO.
WILLIAM BEARD AND JERRY ARNOLD	)	2017-00467
ALLEGED FAILURE TO COMPLY WITH KRS 278.300	)	

NOTICE OF FILING

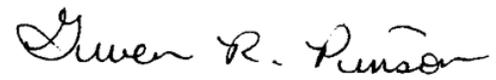
Notice is given to all parties that the following materials have been filed into the record of this proceeding:

- The digital video recording of the evidentiary hearing conducted on February 27, 2018 in this proceeding;
- Certification of the accuracy and correctness of the digital video recording;
- A written log listing, *inter alia*, the date and time of where each witness' testimony begins and ends on the digital video recording of the evidentiary hearing conducted on February 27, 2018.

A copy of this Notice, the certification of the digital video record, and hearing log have been served upon all persons listed at the end of this Notice. Parties desiring to view the digital video recording of the hearing may do so at [https://psc.ky.gov/av\\_broadcast/2017-00467/2017-00467\\_27Feb18\\_Inter.asx](https://psc.ky.gov/av_broadcast/2017-00467/2017-00467_27Feb18_Inter.asx).

Parties wishing an annotated digital video recording may submit a written request by electronic mail to [pscfilings@ky.gov](mailto:pscfilings@ky.gov). A minimal fee will be assessed for a copy of this recording.

Done at Frankfort, Kentucky, this 19<sup>th</sup> day of March 2018.

A handwritten signature in cursive script that reads "Gwen R. Pinson".

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Gwen R. Pinson  
Executive Director  
Public Service Commission of Kentucky

Jerry Arnold  
Commissioner  
Estill County Water District #1  
76 Cedar Grove Road  
Irvine, KY 40336

William Beard  
Commissioner  
Estill County Water District #1  
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Greg Wright  
Chairman  
Estill County Water District #1  
76 Cedar Grove Road  
Irvine, KY 40336

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ESTILL COUNTY WATER DISTRICT NO. 1 AND ) CASE NO.  
ITS INDIVIDUAL COMMISSIONERS, GREG ) 2017-00467  
WRIGHT, WILLIAM BEARD AND JERRY )  
ARNOLD ALLEGED FAILURE TO COMPLY )  
WITH KRS 278.300 )

CERTIFICATE

I, Pamela Hughes, hereby certify that:

1. The attached DVD contains a digital recording of the Hearing conducted in the above-styled proceeding on February 27, 2018. The Hearing Log is included with the recording on February 27, 2018.
2. I am responsible for the preparation of the digital recording.
3. The digital recording accurately and correctly depicts the Hearing of February 27, 2018
4. There were no exhibits introduced at the hearing of February 27, 2018, in this case.
5. The "Hearing Log" attached to this Certificate, accurately and correctly states the events that occurred at the Hearing of February 27, 2018, and the time at which each occurred.

Signed this 15<sup>th</sup> day of March, 2018.



Pamela Hughes, Notary Public  
State at Large

My Commission Expires: April 22, 2019



# Session Report - Standard

2017-467\_469\_27FEB2018

Estill County WD #1\_Jonathan  
Creek WD

Judge: Bob Cicero; Talina Mathews; Michael Schmitt

Witness: Eddie Beavers; Christopher Burnett; David Foster; Barry Hill; Mark Holt; David Lovett; Jimmie Tubbs

Clerk: Pam Hughes

Date:	Type:	Location:	Department:
2/27/2018	Show Cause Hearing	Hearing Room 1	Hearing Room 1 (HR 1)

Event Time	Log Event
8:16:28 AM	Session Started
8:16:30 AM	Session Paused
8:57:14 AM	Session Resumed
8:57:17 AM	Chairman Schmitt preliminary remarks Note: Hughes, Pam Introductions of Commissioners- Robert Cicero - Vice Chairman; Talina Mathews - Commissioner.
8:57:51 AM	Case No. 2017-00467 Estill CO WD 1 Note: Hughes, Pam Show Cause - First case to be called
8:58:19 AM	Atty Weutcher for Estill CO WD 1 Note: Hughes, Pam Regarding the filing made to the Commission regarding notice of Hearing and filing offer of settlement.
8:59:33 AM	Camera Lock PTZ Activated
8:59:55 AM	Camera Lock Deactivated
8:59:58 AM	Chairman Schmitt Note: Hughes, Pam Remarks that no witnesses were needed today for Estill County WD 1, Considering the offer made by the clients.
9:00:38 AM	Camera Lock PTZ Activated
9:00:47 AM	Camera Lock Deactivated
9:00:50 AM	Case No. 2017-000467 Estill County Water District 1 Note: Hughes, Pam Hearing to be continued pending the offered settlement. Note: Hughes, Pam Case No. 2017-00467 Estill County WD 1 adjourned.
9:01:15 AM	Session Paused
9:01:23 AM	Session Resumed
9:01:30 AM	Case No. 2017-00469 Jonathan Creek WD called Note: Hughes, Pam Josh Medley and Kara Wilson dismissed as witnesses. Note: Hughes, Pam Chairman goes over the reasons for the hearing against Jonathan Creek WD. Note: Hughes, Pam Regarding the purpose of taking evidence in this show cause hearing.
9:04:09 AM	Chairman Schmitt states notice has been filed into the record
9:04:24 AM	Atty's introductions Note: Hughes, Pam Angela Goad and Brittany Koenig for the PSC Note: Hughes, Pam Kip Mathis for Jonathan Creek WD. Names the Commissioners and Former Commissioners present today.
9:05:28 AM	No other matters or pending motions.
9:05:38 AM	Atty Goad calls Witness Foster Note: Hughes, Pam Sworn in by Chairman
9:06:07 AM	Atty Goad direct exam of Witness Foster Note: Hughes, Pam Regarding the trainngs he has had with the Commission. Note: Hughes, Pam David Foster _ PSC_ Financial Analyst III - Explains his general duties and educational background.
9:07:47 AM	Atty Goad direct exam of Witness Foster Note: Hughes, Pam Referring looking at Jonathan Creeks prior case.

9:08:33 AM	PSC exhibit 1 Note: Hughes, Pam	Copy of Business Loan Agreement between Jonathan Creek WD and Community Financial Services Bank.
9:09:24 AM	Atty Goad direct exam of Witness Foster Note: Hughes, Pam	Regarding the note of \$600,671.50. 5-3-2016 is date when the loan was taken.
	Note: Hughes, Pam	Bill review on 9-13-2017 done by Witness Foster.
9:11:11 AM	Atty Matthis cross exam of Witness Foster Note: Hughes, Pam	Regarding what the loan was taken out for. Capital expenses.
9:12:18 AM	Atty Mathis cross exam of Witness Foster Note: Hughes, Pam	Regarding the PSC Staff Report
9:12:54 AM	Vice Chairman cross of Witness Foster Note: Hughes, Pam	Regarding any refernce to the amorization , principle, or payment.
9:13:38 AM	Chairman cross of Witness Foster Note: Hughes, Pam	Regarding any records from the Jonathan Creek loan and did anyone at Jonathan Creek state they got the loan without Commission approval. No collateral to secure the loan.
9:15:01 AM	Atty Mathis re cross of Witness Foster Note: Hughes, Pam	Page 5 of Business loan agreement (PSC exhibit 1). What does the Loan agreement typically set forth.
9:16:33 AM	Witnees excused	
9:16:53 AM	Atty Goad calls Witness Lovett to the stand Note: Hughes, Pam	Sworn in by the Chairman
9:17:22 AM	Atty Goad direct of Witness Lovett Note: Hughes, Pam	David Lovett, superintendent of Jonathan Creek. Held this position for 4 years and other duties.
	Note: Hughes, Pam	Regarding if there are any specific staff designated to flag this issue of obtaining loans going forward.
	Note: Hughes, Pam	Who in Water District is responsible for loans for the district.
9:19:21 AM	Atty Goad direct of Witness Lovett Note: Hughes, Pam	Regarding why Jonathan Creek needed this loan.
	Note: Hughes, Pam	Regarding PSC exhibit 1 - Business loan agreement. He did not assist in obtaoing the loan. No interest rate is on document but he doesn't know why. Was collateral put up to take this loan.
9:21:21 AM	Atty Goad direct of Witness Lovett Note: Hughes, Pam	Regarding that they didn't seek approval from the Commission for loan.
9:21:43 AM	PSC Exhibit 2 Note: Hughes, Pam	KRS 278.300
9:22:21 AM	Atty Goad direct of Witness Lovett Note: Hughes, Pam	Referring to the KRS 278.300 and what it means. Was he aware of this statute?
	Note: Hughes, Pam	Referring to him saying he had prior knowledge of this statute. He attended a PSC water training.
9:24:17 AM	Atty Goad direct of Witness Lovett Note: Hughes, Pam	Regarding conferring with an attorney before seeking this loan.
	Note: Hughes, Pam	When did he realize this loan permission should have been sought from the Commission. What actions did he take to rectify this issue after he realized this problem
9:25:32 AM	Atty Goad direct of Witness Lovett Note: Hughes, Pam	Regarding if policy has been put into place to keep this from happening again.

9:25:59 AM Atty Mathis cross of Witness Lovett  
Note: Hughes, Pam Capital expenses went to a Well that affected the quality of the water.  
Note: Hughes, Pam Regarding equipment bought with the proceeds from this loan and why they purchased these. Dump truck purchased was a 1992 for 10,000. Backhoe was new.

9:28:17 AM Atty Mathis cross of Witness Lovett  
Note: Hughes, Pam He did not intentionally not seek permission from the Commission. Audit is prepared and submitted every year.  
Note: Hughes, Pam Regarding painting a water tank-Reed Road tank. Last time was 1976.  
Note: Hughes, Pam Regarding his prior knowledge of this statute, KRS 278.300. Did he know he had to get permission from the Commission.

9:30:24 AM Vice Chairman cross of Witness Lovett  
Note: Hughes, Pam Regarding an Asset ledger. PHDR needed for this information.  
Note: Hughes, Pam Regarding who told him to enter into the loan.  
Note: Hughes, Pam Regarding listing of all projects that were completed with the loan proceedings. PHDR needed for this information.

9:32:42 AM Chairman cross of Witness Lovett  
Note: Hughes, Pam Regarding trainings he has attended. Does he remember anything about obtaining loans from the trainings.  
Note: Hughes, Pam Regarding if the District has regular legal counsel that attends meetings. Mathis and Johnson are their attorneys.  
Note: Hughes, Pam Regarding being employed in other Water districts prior to Jonathan Creek.

9:35:53 AM Chairman Schmitt cross of Witness Lovett  
Note: Hughes, Pam Regarding the staff at Jonathan Creek WD.

9:36:35 AM Witness excused

9:37:13 AM Atty Goad calls Witness Tubbs to the stand  
Note: Hughes, Pam Sworn in by the Chairman

9:37:38 AM Atty Goad direct of Witness Tubbs  
Note: Hughes, Pam Jimmie Tubbs, Commissioner for Jonathan Creek. He is Chairman of the board.  
Note: Hughes, Pam Regarding his assistance in getting loans for the water district  
Note: Hughes, Pam Regarding any other loans since he has been on the commission. Who is responsible for preparing loan documents to the PSC. Josh Medley the Treasurer.

9:40:14 AM Atty Goad direct of Witness Tubbs  
Note: Hughes, Pam PSC exhibit 1 - Business Loan Agreement in underlying case. Why they entered into this agreement.  
Note: Hughes, Pam As a Commissioner did he approve this loan. States that he did approve and also signed for the former Chairman of the Board. That person was out of town and he signed in his place. (Larry Conner). He was not chairman at that time.  
Note: Hughes, Pam Regarding if he is aware of interest rate since none on the document.

9:43:25 AM Post Hearing Data Request  
Note: Hughes, Pam Full loan record.

9:44:04 AM Atty Goad direct of Witness Tubbs  
Note: Hughes, Pam Regarding any collateral or unsecured loan.  
Note: Hughes, Pam Regarding if they ever discussed attaching collateral to this loan. Can he commit to getting approval going forward and knowing the steps. Nothing in writing yet. He agrees they did not ask for prior approval

9:45:36 AM	Atty Goad direct of Witness Tubbs Note: Hughes, Pam	Regarding in the future they will ask Commission staff for more information or consult with counsel.
	Note: Hughes, Pam	PSC exhibit 2 - KRS 278.300 and his knowledge of this.
	Note: Hughes, Pam	As Commissioner did they confer with an attorney before signing loan document.
9:46:56 AM	Atty Goad direct of Witness Tubbs Note: Hughes, Pam	Regarding as to when he realized they had entered into an unauthorized loan. Maybe a month before Mr. Foster coming to meet with them. Anything done to rectify this at this point.
9:48:08 AM	Atty Goad direct of Witness Tubbs Note: Hughes, Pam	Policies and procedures in place for future commissioners
9:48:28 AM	Atty Mathis cross of Witness Tubbs Note: Hughes, Pam	Regarding when he came to be Commissioner and when he attended training. Regarding the challenges the District was facing and why they needed this loan.
9:50:59 AM	Atty Mathis cross of Witness Tubbs Note: Hughes, Pam	Referring to any reserve money at hand instead of borrowing.
	Note: Hughes, Pam	Loan payments prior to getting this loan.
9:51:43 AM	Atty Mathis cross of Witness Tubbs Note: Hughes, Pam	Regarding attending additional training if the Commission asks him to.
	Note: Hughes, Pam	2019 is when his term expires.
9:52:20 AM	VC cross of Witness Tubbs Note: Hughes, Pam	Regarding an action plan they made,
	Note: Hughes, Pam	Regarding the dire needs of Jonathan Creek to clean up the water problem. Who developed the plan of action to get the loan? All the commissioners got together and wrote down all they needed to do and someone came and told them the funds they needed to fix the issues.
9:57:09 AM	VC cross of Witness Tubbs Note: Hughes, Pam	Regarding missed payments on the loan or late payments. No they have not missed a payment.
9:57:40 AM	Comm Mathews cross of Witness Tubbs Note: Hughes, Pam	Regarding if they are compliant with safe drinking standards.
9:57:57 AM	Chairman cross of Witness Tubbs Note: Hughes, Pam	Regarding his acknowledgment that WD's cant borrow money without conferring with the Commission.
	Note: Hughes, Pam	Failing to get rate increases and how they can hurt the district. It has been 14 years since they have asked for a rate increase.
	Note: Hughes, Pam	Chairman states study showing Ky needing 6 billion to keep up. Witness states there is an area to fix and estimate was 4.2 million to fix this area.
10:03:20 AM	Vice Chairman cross of Witness Tubbs Note: Hughes, Pam	Regarding draining tank and loss of water. Regarding asset ledger.
10:04:14 AM	Witness excused	
10:04:21 AM	Atty Goad calls Witness Hill to the stand Note: Hughes, Pam	Sworn in by the Chairman
10:04:44 AM	Atty Goad direct of Witness Hill Note: Hughes, Pam	Barry Hill. Retired and former Commissioner of Jonathan Creek board. 24 years service. June 2017, was when his commission expired. He tells his positions and duties while on the board.
	Note: Hughes, Pam	During his time did he ever assist with approval of loans. Had one with KIA that allowed them to build their new plant. He didn't realize a PSC regulation was broken until this case came up.

	Note: Hughes, Pam	To his knowledge KIA took care of everything in the case regarding the 27 WD's
10:08:22 AM	Atty Goad direct of Witness Hill Note: Hughes, Pam	PSC exhibit 1 - he signed the loan as Treasurer. Is he aware of the interest rate and collateral. Documents here are not complete. No collateral associated with this debt. He agrees Jonathan Creek did not seek Commission approval. Was he aware that prior loans approved by the PSC.
	Note: Hughes, Pam	PSC exhibit 2 - KRS 278.300 Was he aware of this statute and if they conferred with an attorney.
10:11:15 AM	Atty Goad direct of Witness Hill Note: Hughes, Pam	Regarding when he realized they had not sought permission from the Commission. He was off the board at that point, and special meeting with their attorney. Regarding Policies and procedures in place to guide board members.
10:12:23 AM	Atty Mathis cross of Witness Hill Note: Hughes, Pam	Regarding when he was on the board how many customers did district have. 1993, a million in debt and 700 meters. 3000 meters when he left the board.
	Note: Hughes, Pam	Debt from the KIA loan, was paid for. They also paid other loans. GMAC loans were for building the water plant. KIA loan purposes
10:14:30 AM	Atty Mathis cross of Witness Hill Note: Hughes, Pam	Regarding accomplishments the district has made.
10:15:42 AM	Vice Chairman cross of Witness Hill Note: Hughes, Pam	Regarding his occupation before he retired. Any background in finance. No he does not.
	Note: Hughes, Pam	Action plan and going to the bank and the loan that doesn't specify a lot of items that should be. Regarding doing assesments. Outside accountant with them for 2 years. Annual audit done every year he has been on the board.
	Note: Hughes, Pam	Unanimous decision that Witness Hill was the person to take care of this. Ledgers are kept by the office staff. Christopher Burnett is accountant for the Water board Commission.
10:20:48 AM	Chairman cross of Witness Hill Note: Hughes, Pam	Regarding payment to water board commissioners. Pay was all the same. In 1993 they got \$1 a month, he got \$400 monthly in June of 2017. Had to have trainings in order to get paid. He had trainings with the PSC and with KRWA.
10:22:36 AM	Witness excused	
10:22:52 AM	Atty Goad calls Witness Holt to the stand. Note: Hughes, Pam	Sworn in by the Chairman
10:23:19 AM	Atty Goad direct Witness Holt Note: Hughes, Pam Note: Hughes, Pam	Regarding his General duties and responsibilites Mark Holt, self-employed logger. Former commissioner of the Jonathan Creek WD.
	Note: Hughes, Pam	2006 or 2008 is when he became a Commissioner. He resigned in June 2017.
10:25:01 AM	Atty Goad direct Witness Holt Note: Hughes, Pam	Referring to assisting with loans.
10:25:27 AM	Post Hearing Data Request Note: Hughes, Pam	Any loan documents they have in last 10 years.
10:25:44 AM	Atty Goad direct of Witness Holt Note: Hughes, Pam	Regarding why the interest rate and payments not on this document. No collateral.
	Note: Hughes, Pam	He authorized the district to enter into this loan.

10:27:05 AM	Note: Hughes, Pam Atty Goad direct of Witness Holt Note: Hughes, Pam Note: Hughes, Pam  Note: Hughes, Pam	PSC exhibit 1 - business loan agreement  He affirms they did not seek permission for Commission Staff When he was on board does he recall any written policies and procedures. PSC exhibit 2, the KRS statute. He was no longer on the board and didn't participate in the special meeting once the Commission opened this case.
10:28:48 AM	Atty Mathis cross of Witness Holt Note: Hughes, Pam	Regarding no other loans since he has been on the board. The KIA loan was when he was on the board.
10:30:07 AM	VC cross of Witness Holt Note: Hughes, Pam	How long he was on the board of commissioners. He was asked to be on the board. He agreed this loan was best plan of action. He left because of differences with other commissioner so he resigned.
10:32:17 AM	Comm cross of Witness Holt Note: Hughes, Pam	Regarding water trainings he attended.
10:32:42 AM	Witness excused	
10:33:03 AM	Chairman Schmitt statement Note: Hughes, Pam  Note: Hughes, Pam Note: Hughes, Pam	Reason why the Commission is holding these hearings regarding the loans being taken without prior approval. Atty Mathis states he can file a brief if needed and makes statement about the efforts the PSC is taking to educate the water commissioners. Asks the penalties to be suspended. Three Post Hearing Data Requests's to be issued. PSC can get out by March 6th. Atty Mathis can respond in 20 days. If not, then file a Motion for an extension.
10:39:23 AM	Case No. 2017-00469 Adjourned	
10:39:31 AM	Session Paused	
2:22:49 PM	Session Ended	

Jerry Arnold  
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